

# Automobiles

"The maximum number of sales will come from the replacement market as BS3 and BS4 trucks/ CVs are getting old and needs to be replaced now. The new trucks are running around 20,000 km a month, which the older trucks cannot do, and therefore the demand for the newer trucks is going to be very strong in the coming days."

**Mr. Vinod Aggarwal,**  
MD and CEO, VECV

## Post-festival demand momentum sustains for 2Ws

### Rural recovery and marriage season likely to be the potential catalysts

- Our interactions with leading channel partners indicate that the festive season ended on a strong note with 15-20% YoY growth for 2Ws and SUVs. While growth tends to slow down post-festival season, 2W demand is still better as we expect 5-7% YoY growth in the second half of the month. Demand has improved in almost all the regions and dealers expect the momentum to continue, especially in the northern belts, as demand is further supported by the wedding season. For PVs, festive period growth was largely underpinned by healthy SUV demand and 25-30% higher discounts YoY for lower-end models. However, volume growth remained flattish after the festive period due to continued weakness in the entry-level portfolio. MHCV retails are expected to decline 4-6% YoY during the month. Our interactions with channel partners suggest that demand momentum remains positive across most of the underlying businesses, while anticipation of an increase in freight rates in Jan'24 should further boost demand. In tractors, we expect retails to decline 20-22% YoY as the benefits of government-led subsidies are reducing coupled with a slowdown in overall demand. We estimate dispatches for 2Ws/3Ws/PV/CV/tractors to grow 35%/29%/15%/14%/11% YoY during Nov'23.
- **2Ws:** Retails are expected to grow 9-11% YoY in Nov'23, led by strong demand in the first half of the month, wherein volumes grew 14-16% YoY. However, in the second half, volume growth was restricted to 5-7% YoY. Demand improved in almost all the regions and dealers expect the momentum to continue especially in the northern belts, as demand will be further aided by the wedding season. Our interaction with one of the HMSI dealers indicated that volumes declined 3-5% YoY during the late festive period due to limited inventory of key models such as Activa and SP125. The growth could have been 10-12% YoY if sufficient inventory had been there. This benefitted TVS as it gained market share further, especially, in the 125CC category. We noted some recovery in HMCL's entry-level portfolio led by higher demand for HF Deluxe wherein the company offered discounts of up to INR5.5k/vehicle, and improvement in enquiry level for Glamour in 125CC. Inventory level has come down by 5-7 days across OEMs after the festival period. For HMCL, inventory stands at 45-50 days, while for TVSL/BJAUT the same stands at 25-30 days. We expect dispatches for TVSL/BJAUT/HMCL/RE to grow 43%/37%/32%/14% YoY in November.
- **PVs:** Retails are expected to grow 6-8% YoY during the month largely driven by the festive season demand. Growth in festive period was largely supported by healthy SUV demand and 25-30% higher discounts YoY for lower-end models. However, the volume growth remained flattish after the festive period due to sustained weakness in the entry-level portfolio. Waiting periods for key SUVs continue to reduce; for example, waiting periods of: i) M&M's XUV 700 and Scorpio N reduced by 3-5 weeks, ii) MSIL's Ertiga, Jimny and New Brezza fell by 2-4 weeks and iii) TTMT's Nexon reduced by 2-4 weeks. The new Nexon currently has a waiting period of one month. Inventory levels for TTMT and MM stood at 3-4 weeks, while MSIL has a slightly higher inventory of 4-5 weeks due

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to higher stock of lower-end vehicles. We expect dispatches for MM (including pickups)/MSIL/TTMT PV to grow 27%/13%/5% YoY.

- **CVs:** MHCV retails are expected to decline 4-6% YoY during the month. While freight demand tends to moderate post-festive season, the current demand is further dented by slowdown in government-based orders due to elections in multiple states. CV discounts have gone up by 100-150bp over last 2-3 months; however, this is primarily for the large fleet operators. Our interactions suggest that demand momentum is still positive across most of the segments while anticipation of an increase in freight rates by fleet operators in January should further boost the demand. We noted healthy traction in bus division which is expected to grow 28-30% YoY this month driven by higher demand for inter-state public buses. Inventory level currently stands at ~4 weeks. We expect dispatches for TTMT CV/ AL/VECV to grow 12%/10%/41% YoY.
- **Tractors:** Our channel checks suggest Nov'23 retails to decline 20-22% YoY as benefits related to government led subsidies are coming off coupled with slowdown in overall demand. We have received mixed demand feedback for the sales across regions during the festive and volume growth during the period was largely flattish YoY. Consequently, discounts have increased by 10-15% YoY. We noted recovery in demand for non-agri segments as volumes are expected to grow by 10-12% YoY. Our interaction with a dealer based in Gujarat indicated that volume is expected to decline 28-30% YoY this month due to a change in subsidy norms by the government. Hence, customers are postponing their purchases. Further, M&M is expected to take a price hike in Dec'23 by INR10-12k/vehicle. The inventory stands at above-average level of 8-9 weeks. We expect dispatches for MM/ESCORTS to grow ~10%/13% YoY.
- **Valuation and view:** We prefer 2Ws within the sector followed by CVs. We are already witnessing a reversal in demand patterns, especially in the 2W segment, while we anticipate better growth potential compared to other segments over FY23-25E. On the other hand, we turn cautious on PV growth outlook due to slowdown in demand trend and high base. TTMT and HMCL are our top OEM picks. Among auto component stocks, we prefer ENDU and CRAFTSMA.

## Snapshot of volumes for Nov-23

Company Sales	YoY			MoM								Residual		Residual FY24 YTD	
	Nov-23	Nov-22	YoY (%) chg	Oct-23	MoM (%) chg	FY24YTD	FY23YTD	(%) chg	FY24E	Gr. (%)	Residual Gr. (%)	Monthly Run rate	Monthly Run rate	Monthly Run rate	Monthly Run rate
<b>Maruti Suzuki</b>	<b>1,80,425</b>	<b>1,59,044</b>	<b>13.4</b>	<b>1,99,217</b>	<b>-9.4</b>	<b>14,29,867</b>	<b>13,11,890</b>	<b>9.0</b>	<b>21,71,209</b>	<b>10.4</b>	<b>13.3</b>	<b>1,85,336</b>	<b>1,78,733</b>		
LCVs	2,926	2,660	10.0	3,894	-24.9	22,316	25,082	-11.0	34,205	-10.0	-8.0	2,972	2,790		
Vans	10,415	7,183	45.0	12,975	-19.7	91,249	85,554	6.7	1,37,095	4.5	0.5	11,461	11,406		
Mini Segment	12,776	18,251	-30.0	14,568	-12.3	99,894	1,64,243	-39.2	1,63,038	-30.0	-8.0	15,786	12,487		
Compact*	79,408	77,095	3.0	85,987	-7.7	6,13,265	6,04,507	1.4	9,10,715	0.9	-0.3	74,363	76,658		
Mid Size - CIAZ	1,088	1,554	-30.0	695	56.5	9,224	10,364	-11.0	14,154	4.0	51.9	1,233	1,153		
UVs	52,101	32,563	60.0	59,147	-11.9	4,17,715	2,49,322	67.5	6,44,652	66.0	63.3	56,734	52,214		
Domestic	1,58,714	1,39,306	13.9	1,77,266	-10.5	12,53,663	11,39,072	10.1	19,03,860	20.7	48.4	1,62,549	1,56,708		
Export	21,712	19,738	10.0	21,951	-1.1	1,76,205	1,72,818	2.0	2,67,350	3.1	5.4	22,786	22,026		
<b>M &amp; M</b>	<b>1,08,866</b>	<b>88,831</b>	<b>22.6</b>	<b>1,31,139</b>	<b>-17.0</b>	<b>8,43,291</b>	<b>7,47,133</b>	<b>12.9</b>	<b>12,56,934</b>	<b>13.6</b>	<b>15.3</b>	<b>1,03,411</b>	<b>1,05,411</b>		
UV (incl. pick-ups)	66,485	52,350	27.0	70,246	-5.4	4,89,318	4,11,040	19.0	7,48,321	18.8	18.3	64,751	61,165		
LCV & M&HCV	1,004	755	33.0	1,031	-2.6	8,438	5,663	49.0	13,288	32.4	10.9	1,212	1,055		
Three-Wheelers	7,797	5,198	50.0	9,402	-17.1	56,425	35,859	57.4	87,780	50.0	38.4	7,839	7,053		
Tractors	33,581	30,528	10.0	50,460	-33.5	2,89,111	2,94,571	-1.9	4,07,545	0.0	4.8	29,609	36,139		
<b>Tata Motors</b>	<b>81,469</b>	<b>75,478</b>	<b>7.9</b>	<b>82,954</b>	<b>-1.8</b>	<b>6,33,692</b>	<b>6,28,448</b>	<b>0.8</b>	<b>9,79,412</b>	<b>2.6</b>	<b>6.0</b>	<b>86,430</b>	<b>79,211</b>		
HCV's	14,954	12,673	18.0	16,048	-6.8	1,13,492	1,06,865	6.2	1,92,840	6.6	7.3	19,837	14,187		
LCV's	17,527	16,380	7.0	18,269	-4.1	1,43,186	1,56,557	-8.5	2,21,633	-4.8	3.0	19,612	17,898		
<b>CV's</b>	<b>32,481</b>	<b>29,053</b>	<b>11.8</b>	<b>34,317</b>	<b>-5.4</b>	<b>2,56,678</b>	<b>2,63,422</b>	<b>-2.6</b>	<b>4,14,472</b>	<b>0.2</b>	<b>5.1</b>	<b>39,449</b>	<b>32,085</b>		
Cars	14,009	13,734	2.0	14,989	-6.5	1,13,083	1,19,077	-5.0	1,71,865	-3.0	1.2	14,695	14,135		
UV's	34,979	32,691	7.0	33,648	4.0	2,63,931	2,45,949	7.3	3,93,075	8.0	9.5	32,286	32,991		
<b>Hero MotoCorp</b>	<b>5,16,030</b>	<b>3,90,932</b>	<b>32.0</b>	<b>5,74,930</b>	<b>-10.2</b>	<b>38,60,060</b>	<b>36,63,875</b>	<b>5.4</b>	<b>56,53,319</b>	<b>6.1</b>	<b>7.7</b>	<b>4,48,315</b>	<b>4,82,508</b>		
<b>Bajaj Auto</b>	<b>4,19,212</b>	<b>3,06,552</b>	<b>36.8</b>	<b>4,71,188</b>	<b>-11.0</b>	<b>29,71,760</b>	<b>27,86,448</b>	<b>6.7</b>	<b>43,63,759</b>	<b>11.1</b>	<b>22.0</b>	<b>3,48,000</b>	<b>3,71,470</b>		
Motorcycles	3,59,526	2,62,120	37.2	4,08,144	-11.9	25,38,583	24,70,215	2.8	37,17,945	8.0	21.3	2,94,840	3,17,323		
Two-Wheelers	3,59,526	2,62,120	37.2	4,08,144	-11.9	25,38,583	24,70,215	2.8	37,17,945	8.0	21.3	2,94,840	3,17,323		
Three-Wheelers	59,687	44,432	34.3	63,044	-5.3	4,33,178	3,16,233	37.0	6,45,815	33.2	26.0	53,159	54,147		
Domestic	2,69,044	1,52,716	76.2	3,29,618	-18.4	18,77,774	14,42,844	30.1	25,88,050	22.9	7.0	1,77,569	2,34,722		
Exports	1,50,169	1,53,836	-2.4	1,41,570	6.1	10,93,987	13,43,604	-18.6	17,75,709	-2.5	42.7	1,70,431	1,36,748		
<b>Ashok Leyland</b>	<b>15,957</b>	<b>14,561</b>	<b>9.6</b>	<b>16,864</b>	<b>-5.4</b>	<b>1,23,996</b>	<b>1,14,370</b>	<b>8.4</b>	<b>2,08,650</b>	<b>8.6</b>	<b>8.8</b>	<b>21,163</b>	<b>15,500</b>		
M&HCV	9,853	9,474	4.0	10,185	-3.3	78,289	71,356	9.7	1,36,712	10.2	10.7	14,606	9,786		
LCV	6,104	5,087	20.0	6,679	-8.6	45,707	43,014	6	71,937	5.6	4.6	6,558	5,713		
<b>TVS Motor</b>	<b>3,91,603</b>	<b>2,77,123</b>	<b>41.3</b>	<b>4,34,714</b>	<b>-9.9</b>	<b>28,53,939</b>	<b>25,71,639</b>	<b>11.0</b>	<b>42,54,537</b>	<b>15.6</b>	<b>26.3</b>	<b>3,50,150</b>	<b>3,56,742</b>		
Motorcycles	1,88,508	1,45,006	30.0	2,01,965	-6.7	13,46,721	12,20,016	10.4	19,95,575	15.1	26.4	1,62,213	1,68,340		
Scooters	1,50,622	83,679	80.0	1,65,135	-8.8	11,02,027	9,16,980	20.2	16,46,226	23.4	30.5	1,36,050	1,37,753		
Mopeds	38,453	34,957	10.0	53,510	-28.1	2,99,299	3,08,997	-3.1	4,37,152	-1.9	0.8	34,463	37,412		
Three-Wheelers	14,020	13,481	4.0	14,104	-0.6	1,05,892	1,25,646	-15.7	1,75,585	5.0	67.6	17,423	13,237		
Domestic	3,00,033	1,92,989	55.5	3,46,762	-13.5	21,69,981	17,68,450	22.7	31,36,311	20.0	14.3	2,41,582	2,71,248		
Exports	91,570	84,134	8.8	87,952	4.1	6,83,958	8,03,189	-14.8	11,18,227	4.8	64.9	1,08,567	85,495		
<b>Eicher Motors</b>															
Royal Enfield	80,673	70,766	14.0	84,435	-4.5	6,22,094	5,47,970	13.5	9,35,805	12.1	9.3	78,428	77,762		
VECV	6,889	4,903	40.5	7,486	-8.0	53,497	46,026	16.2	89,369	12.2	6.8	8,968	6,687		
<b>Escorts Kubota</b>	<b>8,979</b>	<b>7,960</b>	<b>12.8</b>	<b>13,205</b>	<b>-32.0</b>	<b>70,790</b>	<b>72,952</b>	<b>-3.0</b>	<b>1,02,257</b>	<b>-1.0</b>	<b>3.7</b>	<b>7,867</b>	<b>8,849</b>		

\*(incl Dzire Tour)

## Comparative valuations

Comparative valuations																
	Rating	Mcap INR b	CMP (INR)	TP (INR)	P/E (x)			EV/EBITDA (x)			PB (x)			FY25 Yld (%)		EPS CAGR (%)
					FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Div	FCF	FY23-25E
Auto OEM's																
Bajaj Auto	Neutral	1,698	6,003	5,225	28.0	21.7	19.4	22.4	16.4	14.2	6.7	6.1	5.6	3.3	4.1	20.1
Hero MotoCorp	Buy	725	3,622	3,850	24.9	18.0	17.0	15.3	11.4	10.0	4.3	3.9	3.5	3.0	5.9	21.0
TVS Motor	Neutral	867	1,825	1,500	60.0	40.4	34.4	33.2	24.4	20.6	14.3	11.0	8.6	0.4	2.7	32.0
Eicher Motors	Neutral	1,047	3,829	3,800	35.9	25.8	22.7	30.2	23.5	20.1	7.0	5.9	5.0	1.3	4.2	25.8
Maruti Suzuki	Buy	3,313	10,537	12,300	39.5	23.6	22.6	24.7	15.6	14.2	5.3	4.5	3.5	1.1	2.3	31.6
M&M	Buy	1,876	1,566	1,775	24.1	17.3	16.4	16.2	12.2	10.4	2.2	1.8	1.5	1.4	5.6	21.4
Tata Motors	Buy	2,565	698	750	324.4	15.7	15.7	10.4	5.1	4.3	5.9	4.4	3.4	0.6	5.0	354.8
Ashok Leyland	Buy	526	179	215	39.7	19.5	15.6	18.3	11.2	9.4	7.2	6.2	4.0	1.1	6.7	59.5
Escorts	Neutral	391	3,193	3,000	62.2	35.1	30.0	47.7	27.5	21.2	5.1	4.3	3.8	0.3	2.9	43.9
Auto Ancillaries																
Bharat Forge	Buy	511	1,097	1,250	94.3	39.7	28.4	32.0	20.4	16.7	7.6	6.6	5.5	0.6	4.1	82.3
Exide Industries	Buy	241	283	310	26.6	22.1	18.9	15.3	12.7	11.0	2.1	2.0	1.8	1.1	4.7	18.6
Amara Raja	Neutral	120	700	660	16.4	14.4	13.0	8.8	7.7	7.0	2.3	2.0	1.8	2.1	5.6	12.2
BOSCH	Neutral	627	21,252	18,500	44.0	37.8	30.9	33.6	29.0	22.7	5.7	5.1	4.7	1.6	2.0	19.3
Endurance Tech	Buy	229	1,630	2,000	47.0	34.3	27.2	22.3	17.5	14.3	5.2	4.6	4.0	0.6	2.3	31.6
SAMIL	Buy	609	90	110	38.9	20.8	18.1	11.0	8.7	7.5	2.7	2.5	2.3	1.7	10.8	46.5
CIE Automotive	Buy	178	470	575	26.0	20.9	17.3	15.4	12.1	10.1	3.5	3.1	2.7	1.0	4.4	22.5
CEAT	Buy	84	2,088	2,950	40.2	12.8	11.2	10.7	6.1	5.3	2.5	2.1	1.8	0.9	9.2	89.7
Balkrishna Ind	Neutral	507	2,621	2,500	50.3	36.9	27.4	26.4	22.8	17.8	6.7	6.1	5.3	1.3	2.5	35.4
MRF	Sell	473	111,525	97,000	61.5	20.9	21.2	19.4	10.1	9.6	3.2	2.8	2.5	0.2	3.0	70.3
Apollo Tyres	Buy	268	423	525	24.7	15.1	12.7	9.4	6.3	5.6	1.7	1.5	1.3	1.3	9.5	39.5
Sona BLW	Neutral	326	558	565	82.0	62.6	48.3	43.0	32.7	25.9	14.3	12.3	10.5	0.7	1.0	30.4
Tube Investments	Buy	642	3,422	3,634	84.4	57.8	48.0	32.5	26.3	22.2	16.7	13.4	10.8	0.3	2.8	32.5
MSUMI	Buy	268	61	70	55.0	43.4	34.0	34.0	27.1	21.6	20.1	16.1	12.9	1.8	2.5	27.2
CRAFTSMAN	Buy	106	4,998	5,800	42.5	26.9	22.2	16.7	11.6	9.5	7.5	5.9	4.7	0.4	3.9	38.3

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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